

Message Text

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ACTION EB-07

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P R 140826Z NOV 76
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 5187
INFO AMEMBASSY ALGIERS
USINT BAGHDAD
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY CARACAS
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY QUTIO
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI

C O N F I D E N T I A L ABU DHABI 3048

E.O. 11652: GDS
TAGS : ENRG, PFOR
SUBJECT : OPEC PRICE DECISIONS

REF: STATE 279392 (NOTAL), ABU DHABI 3045 (NOTAL)

1. SUMMARY: UAE POSITION IS THAT IF THERE IS TO BE OPEC
PRICE RISE, IT SHOULD BE LESS THAN TEN PERCENT. UAE WILL
CONTINUE CONSULT CLOSELY WITH SAUDIS, AND FOR ALL PRACTICAL
PURPOSES, WE CAN EXPECT UAE POSITION IN OPEC TO BE IDENTICAL
WITH THAT OF SAUDIS. END SUMMARY.

2. WITH UAE PRESIDENT IN DESERT FALCONING, OIL MINISTER
UTAYBA STILL IN FAR EAST, FONMIN SUWAIDI IN TEHRAN, AND
MINSTATE FOR FOREIGN AFFAIRS GHOBASH IN LONDON, I CALLED
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ON OIL UNDERSECRETARY AND PRINCIPAL PETROLEUM ADVISOR

ABDALLAH ISMAIL NOVEMBER 13 TO CONVEY US CONCERNS AT IMPACT FURTHER OPEC OIL PRICE INCREASES. ISMAIL IS TO LEAVE FOR VIENNA NEXT WEEK TO BE UAE'S REPRESENTATIVE ON COMMITTEE THAT WILL DRAW UP AGENDA FOR DOHA OPEC MEETING.

3. BEFORE CONVEYING POINTS CONTAINED PARA 2-6 OF REFTTEL, I OPENED BY SAYING THAT I THOUGHT SOME OIL MINISTERS IN OPEC COUNTRIES WERE STILL UNDER THE MISAPPREHENSION THAT USG SECRETLY FAVORED AN OIL PRICE INCREASE DESPITE ITS PUBLIC DECLARATIONS TO CONTRARY. OCCASIONALLY, REFERENCE WAS STILL BEING MADE TO REPORTS THAT HAD APPEARED TWO YEARS AGO IN US PRESS TO EFFECT THAT OPEC OIL PRICE INCREASES HURT US LESS THAN ITS INDUSTRIAL COMPETITORS IN WESTERN EUROPE AND ASIA AND FACILITATED THE ADMINISTRATION'S TASK TO DEVELOP ALTERNATIVE ENERGY SOURCES. DRAWING ON MY EXPERIENCE IN THE DEPARTMENT, I WANTED TO DISABUSE ANYONE IN THE UAEG THAT THIS VIEW HAD ANY CURRENCY WITHIN THE USG. WHILE WE INITIALLY HAD BEEN CAUTIOUS IN OUR RESPONSE TO CONSUMER-PRODUCER DIALOGUE, I THOUGHT WAY IN WHICH USG HAD COOPERATED IN FORMATION OF CIEC AND PARTICIPATED IN WORK OF ITS DIFFERENT COMMISSIONS, ESPECIALLY THE ENERGY COMMISSION, WAS AN EARNEST OF OUR DEEP CONCERN FOR THE ECONOMIC HEALTH OF OIL-IMPORTING LDCS AS WELL AS FOR ECONOMIC STABILITY OF FREE WORLD GENERALLY.

4. IN HIS RESPONSE, ISMAIL SAID THAT UAEG IS CONSCIOUS OF IMPACT OF OIL PRICES ON WORLD ECONOMY, ESPECIALLY LDCS. THIS WAS ONE OF REASONS WHY UAE HAD PLAYED A PROMINENT ROLE IN PROVIDING AID TO LESS FORTUNATE COUNTRIES AS WELL AS TO CONFRONTATION STATES. SHAIKH ZAYID INTENDED THAT THIS POLICY SHOULD CONTINUE. ISMAIL ALSO AFFIRMED THAT UAE WAS ONLY COUNTRY AT LAST OPEC MEETING IN BALI TO SUPPORT SAUDI POSITION ONE-HUNDRED PERCENT. UAE WOULD CONTINUE TO CONSULT VERY CLOSELY WITH SAUDIS ON ALL ISSUES RELATING TO PRICES AND DIFFERENTIALS. HE MENTIONED AS AN ASIDE THAT THESE CLOSE CONSULTATIONS HAD PROVEN TO BE OF MUTUAL BENEFIT AND HAD EXISTED EVER SINCE THE SUMMER OF 1974 AFTER

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PRINCE FAHD'S VISIT TO UAE HAD RESOLVED SAUDI-ABU DHABI BOUNDARY ISSUES. THUS, FOR ALL PRACTICAL PURPOSES, SAUDI POSITION IN OPEC WOULD ALSO BE THAT OF UAE'S.

5. ISMAIL THEN SAID UAE'S POSITION WAS THAT IF THERE WERE TO BE ANY PRICE RISE, IT SHOULD BE LESS THAN TEN PERCENT, A POSITION STATED PUBLICLY BY OIL MINISTER UTAYBA IN TOKYO. WHILE REMARKING THAT SHAH WAS ASKING FOR TWENTY-

FIVE PERCENT, ALTHOUGH HE THOUGH SHAH MIGHT SETTLE FOR FIFTEEN PERCENT, ABSOLUTE UAE CEILING WAS TEN PERCENT.

6. ISMAIL CONTINUED BY SAYING THAT HE DID NOT KNOW IF SAUDI ARABIA AND UAE WOULD BE ABLE TO RESIST PRESSURES OF PRICE MAXIMIZERS AT DOHA. HE NOTED PARENTHETICALLY HIS SURPRISE THAT QATAR NOT FOLLOWING SAUDI LEAD BUT PUSHING FOR A HEALTHY RISE. ISMAIL DID ADMIT IN RESPONSE TO MY OBSERVATION THAT SAUDI UNUSED PRODUCTIVE CAPACITY STILL GAVE THE SAUDIS THE ABILITY TO VETO ANY OPEC PRICE INCREASE, BUT HE ADDED THAT THIS ASSUMED THAT THERE WOULD BE NO SIGNIFICANT INCREASE IN WORLD DEMAND FOR OIL. WHILE DEMAND HAD LEVELED OFF IN LAST THREE YEARS AND PRESENT LIFTINGS WERE ARTIFICIALLY HIGH BECAUSE OF ANTICIPATED PRICE RISES, HE WAS NOT SO SURE THAT OVERALL WORLD DEMAND WAS NOT AGAIN ON UPSURGE. IF IT WAS PERCEPTION OF OPEC COUNTRIES THAT MOST OF SAUDI ARABIA'S UNUSED CAPACITY WOULD HAVE TO BE USED TO MEET INCREASED WORLD DEMAND, AND SINCE NO OTHER OPEC COUNTRY EXCEPT FOR KUWAIT HAD ANY SIGNIFICANT SPARE CAPACITY, THEN SAUDI ABILITY TO HOLD PRICE LINE CONVINCINGLY WOULD DIMINISH.

7. ISMAIL ENDED HIS REMARKS BY SUGGESTING THAT OIL PRICE ISSUE COULD BETTER BE HANDLED BY USG THROUGH QUIET DIPLOMATIC APPROACHES. HE THOUGHT OPEC COUNTRIES WOULD REACT NEGATIVELY TO DEPARTMENT SPOKESMAN NOVEMBER 11 STATEMENT ON OIL PRICES, PROMINENTLY DISPLAYED IN ALL UAE PRESS, AS BEING A PUBLIC US WARNING TO OPEC COUNTRIES. OPEC PRICE HAWKS WOULD ARGUE THAT OPEC WOULD HAVE TO SHOW ITS INDEPENDENCE FROM US AND WOULD ACCUSE ARAB PRICE MODERATES OF BEING AFRAID OF US WARNINGS. I POINTED OUT THAT NOV 11 STATEMENT WAS NO DIFFERENT FROM WHAT WE HAD SAID BEFORE. I THOUGHT IT CONFIDENTIAL

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WAS INTENDED TO MAKE OUR POSITION KNOWN FORCEFULLY TO OPEC PRICE HAWKS THAT US REALLY IS OPPOSED TO ANOTHER OIL PRICE RISE AT THIS TIME.

8. ISMAIL DID NOT RAISE INDEXATION OR ARGUE THAT RISE IN PRICE OF IMPORTED GOODS AND ESPECIALLY SERVICES OVER LAST FIFTEEN MONTHS WARRANTED OIL PRICE INCREASE. HIS INSTRUCTION AT MOMENT SEEMED TO BE TO FOLLOW SAUDI LEAD WHICH WAS PRETTY WELL CONFIRMED DURING SENATOR ABOUREZK'S AUDIENCE WITH SHAIKH ZAYID ON NOV 6 WHEN OIL PRICE ISSUE WAS DISCUSSED (SEE ABU DHABI 3045).

9. I INTEND TO FOLLOW UP APPROACH WITH OTHER UAE LEADERS AS SOON AS PRACTICAL.

DICKMAN

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